



Minutes City Council Issue Review Session July 22, 2008

Minutes of the Tempe City Council Issue Review Session held on Tuesday, July 22, 2008, 6:00 p.m., in the City Council Chambers, Tempe City Hall, 31 E. Fifth Street, Tempe, Arizona.

COUNCIL PRESENT:

Mayor Hugh Hallman
Vice Mayor Shana Ellis
Councilmember P. Ben Arredondo
Councilmember Mark W. Mitchell
Councilmember Joel Navarro
Councilmember Onnie Shekerjian
Councilmember Corey D. Woods

Mayor Hallman called the meeting to order at 6:10 p.m.

Call to the Audience

Steve Adolph, Superintendent, Tempe Union High School District, re: Item #2, stated that the school district has been operating under a State grant for school resource officers for several years. That grant, however, was not renewed for the district. This happened after the budget process and after the failure of the November override. The school resource officers play a vital role. They serve during campus crises, but they also serve as a proactive force and provide a safe learning environment. Students learn to view officers in a different light and develop good relationships. The grant is a 3-year grant, and the district plans to appeal. If the appeal is unsuccessful, a three-year process would need to be considered. Police liaisons are a very important aspect of the schools and if the City would approve funding for the current school year, it would be his desire as Superintendent to move forward and work with the City in subsequent years. It is not the district's expectation that the City would continue to fund this program. It is his expectation that they would work together in future years as budgets are prepared. He supports Chief Ryff's proposal.

Diane Meulemans, Chief Financial Officer, Tempe Union High School District, re: Item #2, highlighted the history of the grant and the appeal process. The grant initially funded the Tempe High, McClintock and Marcos de Niza campuses in 2001/2002. Corona del Sol has never been funded, and through the City, an officer has been present at Corona. Until this year, that funding was received. The grant process changed this year and became a competitive process. Of the 248 previously awarded, 99 were not continued. The district will appeal and the appeal process allows them to file a request by August 11th. They know there is

approximately \$170K to give out on appeal and that would cover two officers. If the appeal is successful and they still have other unfunded officers, they plan to do whatever they can to find alternative funding.

Michelle Helm, Tempe Union High School District Governing Board Member, re: Item #2, thanked the City Council for being so involved in the community. This is a project that means so much to the schools and to the children who attend the schools.

Councilmember Arredondo stated that he plans to support Option #1. He asked for clarification that it would be Mr. Adolph's intention to go back to the school board to set this as a priority for the following year, that the appeal process will be followed, and that if the appeal is successful, the district would reimburse whatever would be appropriate.

Mr. Adolph agreed.

Councilmember Shekerjian agreed that this program is very important. The success of our City, to a great extent, depends on the success of our schools. This community cares about its kids.

High School Resource Officers

INFORMATIONAL BACKGROUND available in City Clerk's Office.

DISCUSSION – Presenters: Police Chief Tom Ryff; Assistant Police Chief Brenda Buren

Police Chief Tom Ryff summarized that the school district was notified on May 29th by the State Department of Education that the district might not be successful with their grant process. The City began to work with the schools immediately, and the final letter indicating that they were not successful was received on July 11th. The Police Department lacks funding for two contract employees to put into two of the high schools because they had been relying on grant monies to fund these two positions. He asked Council to consider using non-recurring contingency funds of \$165K to fund the 2008/2009 school year.

Mayor Hallman added that the next agenda item deals with funding certain items, but from the finance staff's estimation, it appears Option #1 would require funding of \$165K. He asked Chief Ryff if it was his request to go forward with Option #1.

Chief Ryff confirmed that staff's recommendation is to move forward with Option #1.

Vice Mayor Ellis asked for clarification that Corona del Sol has always been funded through the budget, so that will continue to be funded that the Police Department budget. Is staff asking for two additional persons?

Brenda Buren explained that historically in the Investigations Division, four officers were allocated to the high schools and they split their time between the high schools and middle schools. When the grant program emerged in 2001, they were able to provide two contract officers which allowed them to fill some other priorities in the Investigations Division. Those positions were not specially applied to Corona del Sol or Tempe High, but

it just happened that those were positions that got assigned to those schools. They used to have four for the high schools, and now they have two. The contract officers for the other two would need funding. There is no distinction between any of the high schools.

Mayor Hallman summarized that the City has always historically funded those and staff is asking to make up for the loss of the grants with funding that would support the additional two officers.

CONSENSUS

- Staff was directed to go forward with Option #1.
- Add to the items to be considered for funding in the 08/09 Budget Contingency Fund.

Follow-up Responsibility: Tom Ryff

FY 08/09 Budget Contingency Fund

INFORMATIONAL BACKGROUND available in the City Clerk's Office.

DISCUSSION – Presenters: City Manager Charlie Meyer; Deputy Financial Services Manager Cecilia Robles

City Manager Charlie Meyer summarized that along with the School Resource Officer issue, other issues are evolving, and he requested a discussion take place concerning the contingency fund. The City's fiscal policy specifies that a 2% contingency be included in the general fund. The contingency established this year, however, is about \$1.3M or less than a 1% contingency. Discussions were held during the budget process and it was agreed to lower the contingency as one method to keep the budget in line. In looking at the historic trends, most of the contingency fund hadn't been used for unexpected items, so it appeared the \$1.3M was reasonable. All of these issues have occurred within the last 60 days: As claims arise for access to the contingency fund, consideration needs to be given to one thing. Above and beyond all else, we want to operate in the "black" by June 30, 2009. This request tonight does not constitute a deficit in the current budget. The contingency fund is used so that there isn't a deficit. He outlined the following:

- Fuel rates had been considered in the \$2.80 range. There wasn't anything predicting \$4 per gallon for regular fuel. The \$650K estimate assumes about a \$4 regular gas rate and \$4.50 diesel rate. If current trends hold, those numbers would be good. This item needs to be tracked closely, however.
- \$165K would be required to provide funding for School Resource Officers at the four Tempe high schools.
- State Reimbursement ("reverse revenue sharing" program) would require \$507,955. A notice from the League of Arizona Cities and Towns was received today stating that they are going to raise a question as to the constitutionality or legality of this legislative decision. One item being examined is whether or not it would have required a two-thirds majority vote of legislature to pass because it is, in essence, cutting the City's State aid.
- Qwest settlement of \$271,000 is the City's portion of the settlement between the State and Qwest regarding overpayment of property taxes.
- Memorandums of Understanding (MOU) with the City bargaining units are on the Council agenda tonight. Until the market survey is done, the cost of these is unknown. In particular, because of the

differences in some of the agreements, one may end up costing more than planned. For the others, the market surveys should be pretty much in line with what has been estimated in the budget.

Mr. Meyer added that more things will arise between now and the end of this budget and they will need to be addressed. He urged Council to be cognizant of the fact that the contingency fund was cut back and that there are currently claims that would equal the full amount of the contingency fund.

Mayor Hallman stated that Council already recognizes with the State Reimbursement, although the League of Arizona Cities and Towns may seek to appeal it, that the League is charged with protecting cities' interests and preventing this kind of thing from happening in the first place. He didn't have a lot of confidence that there will be a lot of progress. His concern is that Council has already agreed to closely monitor contingency claims. The contingency was cut in half and there is already \$1.4M in potential claims. With this City's budget process, we anticipate expenses at being 2% more than typical experience, and we anticipate revenue being about 2% less than ultimately results, so we have built in through conservatism an additional protection. Starting the year, essentially with no contingency at all strikes him to be not fiscally prudent. Council has already put forward and gone through twice a process of reviews by a Long Range Budget and Finance Planning Committee. There are still recommendation or concepts contained on the recommendations coming from that committee for Council consideration that would result in a combination of revenue enhancements of \$2.28M and cost savings of \$517K, for a total of close to \$2.9M. He would ask staff to look at those recommendations and anything else that might be sensible and start prioritizing where to reduce expenses and seek revenue enhancements that could be implemented. His fear is that as the budget year goes on, there are some things we might have implemented that could have saved money, and we can't go backward and un-pay someone who we have paid. For example, Development Services made recommendations on its own for about \$200K for things that it had eliminated from its budget but that apparently were not adopted in the budget as part of that process. The temporary building inspector position was not renewed for \$63,994. If the position wasn't renewed, why wasn't it adopted in the budget? He would suggest figuring out all of those kinds of things sooner than later so that if money is reserved in budget line items that aren't being funded, it can be moved back to contingency. He also suggested that staff come forward with recommendations for prioritization of our expenditures and revenue opportunities so we can get those things started. When the last economic downturn hit this City in March of 2001, by that summer we had already started addressing that downturn and by October, the Council had adopted a financial plan that kept this City in the "black" and ultimately ended that year with a \$2M surplus. Other cities were just discovering that they had these problems. It is our anticipation and preparation that sets us apart fiscally from everyone else. He would encourage adopting that same model here. We know we will pay for fuel, we know we would like the School Resource Officers, we don't have any choice about the State reimbursement, and the Qwest settlement is \$100K to the general fund. An item that needs to be on this list for further conversation is whether or not we will find money to provide for additional social service budget items. He recalled that there was between \$115K and \$125K in additional items that Council may want to revisit. He would suggest adding that to the list and would ask staff to come back with recommendation on how we are going to tighten the budget, sustain our contingency, and fund these items.

Councilmember Mitchell asked for clarification, regarding the Qwest settlement, that of the \$271K, only \$100,295 is coming out of contingency and \$170,772 is coming out of debt service fund.

Mr. Meyer agreed.

Councilmember Shekerjian asked when that State reimbursement amount would be due.

Mr. Meyer responded that there is a due date in the legislation of August 31st. It doesn't say it has to be paid by then, but says that as of August 31st, it is chargeable.

Councilmember Shekerjian asked if the State collects \$500K this year, what about next year?

Mr. Meyer responded that there was no direction how it will be done.

Councilmember Mitchell stated the League of Arizona Cities and Towns is fighting on the cities' behalf. This legislation was done at a very late hour, so no one knew it was coming.

Councilmember Shekerjian asked if this is simply a placeholder for them.

Councilmember Mitchell stated that when the League appeals it, we will find out.

Mayor Hallman asked if it is Council's consensus that staff be directed to come back with recommendations on how to start creating a new contingency fund, given that we have essentially wiped out the current one, and that we set priorities on how we're going to do that as things move forward.

Councilmember Arredondo agreed, but he wouldn't want to tie a time limit on it. Staff should return in a timely manner.

Mayor Hallman asked Mr. Meyer how quickly staff could put something together for Council.

Mr. Meyer responded that staff has already begun putting something together. He would rather not return on August 14th but wait until September. As long as there are no additional claims on the contingency between now and then, that should be fine. It does, however, give less time to adjust to any changes we might want to make. If we make a cut in the budget, we will only get nine months' value as opposed to twelve months.

Mayor Hallman asked if it was Council's consensus to add onto that list examination of the additional \$115K to \$125K for social service funding that was reported in the newspaper as being unfunded or supplemental.

Councilmember Arredondo thought Council had taken care of that.

Mayor Hallman clarified that Council added \$150K through the billboard funding that would be pre-funded using cash flow, and he just wanted to clarify whether it was Council's decision that the \$150K supplant the missing supplemental, or whether Council is asking staff to go forward and add that to the list. His understanding from the last special budget hearing was that there was a general sense that it had been thought to be in the budget and that we wanted to fund supplemental amounts. He felt Council should come back and see those separate supplementals and make those final decisions as part of weighing priorities in this more difficult time, but it

should come back as part of the list of how we are going to fund these items.

Councilmember Arredondo asked whether it had been voted on.

Mayor Hallman responded that it hadn't been agendized.

Councilmember Arredondo added that it should be agendized because he had always been of the opinion that the \$150K from the billboards was extra.

Mayor Hallman stated that he wasn't sure that was quite the case. It needs to be agendized, and given your suggestion that staff should come back timely with recommendations on how to fund all of these items, it should be done expeditiously. He would include specifically to look at the supplemental for social services in detail so we can get that done. The question he would have is whether there are any other items that might have been missed in the budget that should have been funded. Staff should come back expeditiously with a report on how to recreate a contingency fund, and include in that list of items how we are going to fund \$115K or \$125K of the supplemental requests.

Councilmember Arredondo stated that he thought Mr. Meyer said staff would come back in September. He would hope the social services item could be placed on the next agenda because he thought that was already a done deal.

Mayor Hallman asked for consensus that it be placed on the next agenda. There was consensus.

Vice Mayor Ellis added that she would like to see the detail on that item at the next meeting so Council could decide whether to put it on the list.

Mayor Hallman suggested either putting that on the next agenda or distributed in the Friday Informational Packet. He summarized that Council gave direction already that the \$165K will go forward for SRO. We now have to figure out how to fund all of this. It sounds like the \$165K is funded, essentially, out of the contingency.

Mr. Meyer added that Council's informal direction was to make that happen and staff will figure out what action Council needs to take in order to formalize that.

Mayor Hallman clarified that Council has adopted the policy that only a formal Council agenda item is sufficient to fund cash. The detail on the TCC supplemental request needs to be agendized on the next IRS, Council can make its decision then, and then it can be moved to a Formal agenda. He summarized that the funding for the School Resource Officers should be on the next Formal agenda. That's the only item that is being immediately funded out of contingency; in the interim period, staff will work to find more money for contingency.

Mr. Meyer added that there was also the issue of the direction of Council on how that revenue from the display panels gets formally designated. It was staff's intent to bring that back to the August 14th Formal meeting.

Mayor Hallman clarified that Council would vote on designating the \$150K to TCC for the billboard money

formally at the August 14th meeting. Council will designate only the \$165K for the SRO. Put on the IRS agenda the specific detail of the additional supplemental that TCC requested so that Council can decide how to move that forward. Staff will begin the process for the first meeting in September to bring recommendations on how to add funds for the contingency through savings and additional revenues.

Councilmember Navarro asked for additional information on the fuel projection.

Cecilia Robles responded that staff has conducted a detailed analysis with the projection for the next 12 months and staff will supply that.

Mayor Hallman directed staff to include that analysis in a Friday packet.

Councilmember Mitchell asked to have some ideas from the Ad Hoc Long Range Budget and Finance Planning Committee to help in Council's decision-making process on some of these outstanding items. Provide information on the ones we know we need to take care of with the contingency, and then come back at a later date with recommendations for the remainder.

Mayor Hallman urged staff to be expeditious, but not to come forward until they have the appropriate information.

Mayor Hallman summarized that there will be a payment date associated with the \$100K for the Qwest settlement, the \$500K for the State reimbursement is put off until August 31st, the \$165K for the School Resource Officer is needed immediately, the \$650K fuel cost is the estimate for the entire year, and the employee cost will be a gradual item as well. The immediate items are the School Resource Officer funding and the Qwest payment, so an immediate hit to the contingency would be \$265K. It is important not to wait, because if there are savings to be had, waiting until September loses one or two months in possible savings.

CONSENSUS

Staff was directed to:

- Agendize the display panel revenue to TCC and the \$165K for the School Resource Officers on the August 14th Formal meeting agenda.
- Present specific detail on the additional TCC supplementals at the August 14th IRS.
- Bring recommendations to the September 11th IRS on how to recreate a contingency fund through savings and additional revenue.
- Provide detailed analysis of fuel cost projection in a Friday packet.

Follow-up Responsibility: Charlie Meyer

Water and Sewer Development Fee

INFORMATIONAL BACKGROUND available in City Clerk's Office.

DISCUSSION – Presenter: Water Utilities Manager Don Hawkes

Mayor Hallman clarified that this item does not involve water and sewer rate increases, but concerns the

development fees that the City charges when a developer pays a tap fee to begin a project. As part of the Ad Hoc Long Range Budget and Finance Planning Committee's recommendations, staff was directed to re-examine what the City charges.

Don Hawkes summarized that late in 2006, Red Oak Consulting was hired to perform a detailed development fee analysis. That analysis was presented to Council in the spring of 2007 and proposed adjustments in the development fees were presented. Council adopted those adjustments and the adjustments became effective in September of 2007. During that process, staff made a commitment to Council to analyze the fees on an annual basis to make sure that growth pays for growth. The 2008 analysis was completed and it has been presented to Council. Staff also recommends beginning to link these development fees with a construction index, the Engineering News Record 20 Cities Construction Index, which reports both the ID and OD for pipe sizes. That, along with working in any changes to their growth-related CIP, would come back to Council on an annual basis and additional recommendations for adjustments to the fees would be made. He added that the proposed fees are agendaized as #39 on the Formal Council meeting tonight, and staff recommends that the proposed fees be adopted. Approval of Item #39 would start the clock on the process. It would set the public hearing for October 2, 2008, and assuming the fees are approved on October 2, they would go into effect on February 1, 2009.

Mayor Hallman asked Mr. Hawkes to explain why a consultant is used to set these fees and why this process is used.

Mr. Hawkes explained because State statute requires the City to have "cost of service." We need to make sure that the growth component of the capital improvement program is covered by those who are moving in and requiring new capacity for treatment and conveyance of water and wastewater.

Mayor Hallman clarified that this process is required so that the City doesn't charge more than it costs for service. The consultant examines everything the City does, compares it to how other cities do it, and makes sure the City is charging what it really costs, and that is what is imposed on new development for the tap fees.

CONSENSUS

Proceed as presented.

Follow-up Responsibility: Don Hawkes

Formal Council Agenda Items

None.

Future Agenda Items

None.

Mayor's Announcements/Manager's Announcements

Mayor Hallman welcomed the two new Councilmembers, Joel Navarro and Corey Woods, to their first Issue Review Session.

Meeting adjourned at 6:55 p.m.

Jan Hort
City Clerk